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UNCLAS SECTION 01 OF 02 BRASILIA 001832

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SUBJECT: MERCOSUL/EU TALKS BREAK-OFF: NOT JUST A BRAZILIAN
"TACTIC"

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1. (U) Top GoB negotiators on Wednesday July 21 abruptly broke off EU/Mercosul trade talks in Brussels and returned to Brazil leaving only lower-level staff to continue eventual exchanges on technical parameters or detail. The GoB move was a reaction to the EU's latest agricultural market access offer, presented on Monday, which the disappointed Brazilians at once denounced as a retreat from the previous EU offer. Inter alia, the Europeans reportedly conditioned the ultimate definition of their agricultural tariff/quota offers upon WTO Doha Round developments, and made explicit that previously proposed agricultural-import quotas would be phased-in, backloaded, over ten years.

2. (SBU) By all local accounts and appearances, the walk-out came precipitously and shocked the Europeans -- as well as Brazilian media and observers who have been fed a steady recent diet of glowing GoB affirmations about achieving a Mercosul-EU trade agreement before Lamy leaves his post in October. It probably also caught much of the GoB's own fifty-plus negotiating team on the hop. CAMEX (Foreign Trade Chamber) executive secretary Mario Mugnaini, en route to Brussels with the latest input from Brazil's private sector after a Lula meeting with businessmen, landed to find his trip OBE'd.

3. (U) As of Friday July 23, the declared GoB view is that the walk-out was a necessary tough tactic to force the EU to talk turkey about farm trade. "The agricultural offer is the one that justifies this negotiation. Parceling out the quotas makes the agricultural offer inexistent...The time has come, once and for all, for the Europeans to understand that they need to improve their agricultural offer," in the words of the GoB delegation's new chief, Regis Arslanian. Local reports cite the Europeans in turn as claiming that the ten-year phase-in intention was previously notified and blaming Mercosul's "inflexibility" for the suspension of negotiations. Arslanian's EU counterpart Karl Falkenberg noted that "Parceling is normal and it is, for example, in our agreements with Chile and Mexico." No doubt the EU also has cause for its own complaint that Mercosul's offers (or lack thereof) on industrial trade, services and investment fall comparably short of what European interests require.

4. (U) Both sides have underscored that negotiations have not been called off. However, at least in Brazil it now seems broadly expected that the main hope for their resumption hinges on next week's events vis-a-vis Doha Round negotiations. The always-optimistic Mugnaini has been quoted as suggesting that a ten-year phase-in period for the quotas might actually be acceptable, as long as the quotas themselves were steeply raised, but Itamaraty has since issued an apparent disavowal.

5. (SBU) In a development whose possible correlation with the negotiations' progress has been lost on no-one here, Arslanian last week unexpectedly displaced veteran GoB trade negotiator and Ambassador to Brussels Graca Lima as head of the Mercosul team. Itamaraty spokesmen up to and including Foreign Minister Amorim assert there was no policy import to this personnel shift. Nobody seems to accept this, and a July 22 'Estado de Sao Paulo' editorial (Septel) reflected a common view in calling Graca Lima's sidelining just the latest in a series of ideologically-motivated underminings of Brazil's best trade diplomats since Lula's administration, and the new top Itamaraty leadership, took over.

6. (U) Media have highlighted that Agriculture Minister Rodrigues and Industry Minister Furlan both made calls of solidarity to Graca Lima. (NOTE: U/S Larson heard of the Brussels breakdown in his July 21 meeting with Rodrigues,

who expressed surprise at the development, but did not offer a view as to how far-reaching its effect would be. END
NOTE.) Otherwise, general reaction in Brazil seems to have been to feel vaguely let-down, but irresolute. The National Agricultural Confederation (CNA) was forthright in protesting the Mercosul walk-out, but the National Confederation of Industries (CNI) considered it "sensible."

COMMENT

17. (SBU) Itamaraty made this disruption happen, but should be feeling very uneasy. It has invested enormously in promoting the line that Brazil can gain improved trade conditions vis-a-vis developed countries with or without FTAA. So far, its institutional returns for doing so under Lula have been rich. Now, though, Amorim and Guimaraes face the prospect of the ballyhooed EU/Mercosul pact proving a chimera, disappointing the expectations that they themselves fueled. Their best hope at this point may be the chance of last-minute WTO success in overcoming the Doha Round impasse. Absent that, Amorim may have to choose between outright failure to get any Mercosul/EU agreement at all by October, or signing an "agreement" that is transparently pallid.

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